

NORTH DAVIS SEWER DISTRICT

FINANCIAL REPORT

DECEMBER 31, 2005 AND 2004

NORTH DAVIS SEWER DISTRICT

FINANCIAL REPORT

DECEMBER 31, 2005 AND 2004

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
North Davis Sewer District
Syracuse, Utah

We have audited the accompanying financial statements of North Davis Sewer District, as of and for the years ended December 31, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accompanying principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Davis Sewer District, as of December 31, 2005 and 2004, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 6, 2006 on our consideration of North Davis Sewer District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The statement and schedules on pages 38 through 42 are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Crane Christensen & Ambrose

June 6, 2006

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NORTH DAVIS SEWER DISTRICT

Management's Discussion and Analysis

As management of the North Davis Sewer District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the independent Auditor's report.

History and Background of District

The North Davis Metropolitan Sewer Association was formed in 1946 to acquire from the US government the North Davis Metropolitan Sewer which had been constructed in 1943 with federal funding. The Association was then organized under state statutes as a Special Service District in 1954 with authority to levy taxes, issue bonds, and construct a sewage collection and treatment system.

Today the District collects and treats wastewater from an area encompassing 80 square miles with a population of approximately 168,000. The District consists of member entities made up of the cities of Clearfield, Clinton, Layton, Roy, Sunset, Syracuse, West Point, a small area of Kaysville, Hill Air Force Base, and areas of unincorporated Davis and Weber Counties.

The District owns and operates approximately 100 miles of sewer collection lines, which convey and deliver wastewater to its treatment facility located near the shore of the Great Salt Lake in Syracuse City.

Financial Highlights

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$84,677,241 (*total net assets*). Of this amount, \$46,602,640 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to citizens and creditors.

The District's total net assets increased by \$4,008,642.

At the end of the current fiscal year, unreserved net assets were \$46,602,640.

The District's total liabilities increased by \$39,791,623 during the current fiscal year because of the issuance of General Obligation bond and Revenue Bonds.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) basic financial statements, and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: proprietary funds and fiduciary funds.

Proprietary funds. The District maintains one type of propriety fund, an enterprise fund. The *Enterprise fund* is used to report the same functions presented as *business-type activities* in the government-wide financial statements. Because this service predominantly benefits governmental rather than business-type functions, it has been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information* concerning the District's budget actual amounts and requirements of the sewer revenue bonds series 2000, sewer revenue refunding bonds, series 2003A, taxable sewer revenue bonds, series 2005A.

Governmental-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$84,677,241 at the close of the most recent fiscal year.

By far the largest portion of the District's net assets reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

North Davis Sewer District's Net Assets

	2005	2004
Current and other assets	\$ 57,004,312	\$ 33,780,006
Capital assets (net of accumulated depreciation)	121,510,229	100,934,271
Total assets	178,514,541	134,714,277
Long-term liabilities outstanding	87,972,465	47,454,056
Other liabilities	5,864,836	6,591,622
Total liabilities	93,837,301	54,045,678
Net assets:		
Invested in capital assets, net of related debt	30,886,946	51,283,978
Restricted	7,187,655	6,507,762
Unrestricted	46,602,640	22,876,859
Total net Assets	<u>\$ 84,677,241</u>	<u>\$ 80,668,599</u>

An additional portion of the District's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$46,602,640) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current year, the District is able to report positive balances in all three categories of net assets. The same situation held true for the prior year.

The District's net assets increased by \$4,008,642 during the current fiscal year. About one third of this increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. The remainder of this growth largely reflects increase in population and investment earnings.

Business-type activities. Key elements of the growth of net assets are as follows:

North Davis Sewer District's Changes in Net Assets

	<u>2005</u>	<u>2004</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 5,138,406	\$ 4,779,676
Capital contributions	3,059,919	2,748,586
General revenues:		
Property Taxes	5,183,155	4,733,363
Unrestricted investment earnings	839,093	1,477,576
Restricted investment earnings	180,096	99,917
Rental Income	97,093	148,521
Miscellaneous	2,975	4,475
Gain on disposal of assets	9,733	-
(Loss) on bond refunding	(100,000)	(1,227,824)
Total Revenues	<u>14,410,470</u>	<u>12,764,290</u>
Expense:		
General Government	-	-
Sanitary Sewer	10,400,052	9,524,822
Total Expenses	<u>10,400,052</u>	<u>9,524,822</u>
Increase in net assets	4,010,418	3,239,474
Net assets - Beginning	<u>80,666,823</u>	<u>77,427,349</u>
Net assets - Ending	<u>84,677,241</u>	<u>80,666,823</u>

Property taxes increase by \$449,792 during the year. Most of this increase is the product of additional homes built within the District's boundaries and increased property values.

Charges for services for business-type activities increased by 7.5 percent. The increase is attributable to a increase in fees collected.

Capital contributions increased by \$311,333. The increase is contributed to more building then the prior year.

Investment earnings decreased by \$558,304 because of the expense of plant expansion.

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Budgetary Highlights

Differences between the final budget and the actual for the year 2005 can be briefly summarized as follows:

\$81,790 increase in total revenue.

\$174,096 decrease in total expenses.

The increase in revenue was a result of new bond issues which increased the amount of money to invest. The decrease in total expenses was a result of less expenses.

Capital Asset and Debt Administration

Capital Assets. The District's investment in capital assets for its business-type activities as of December 31, 2005, amounts to \$121,510,229 (net of accumulated depreciation). This investment in capital assets includes land, easements, water rights, construction in progress, plant and sewer systems, automobiles and equipment. The total increase in the District's investment in capital assets for the current fiscal year was 17 percent. Major capital asset events during the current fiscal year included:

Construction continued on the Biotower and Biotower Recirculation Pump Station, Power System Upgrade, Solids Contact Process, Influent Pump Station improvements, and West Outfall Sewer Line.

North Davis Sewer District's Capital Assets (Net of depreciation)

	2005	2004
Land	\$ 6,948,355	\$ 6,855,224
Easements	1,378,690	1,341,070
Water Rights	194,900	194,900
Construction in Progress	51,621,880	31,303,465
Buildings	2,779,196	2,779,196
Plant and Sewer Systems	85,365,853	81,918,279
Automobiles and Equipment	3,097,891	3,063,887
Total	<u>\$ 151,386,765</u>	<u>\$ 127,456,021</u>

Long-term Debt. At the end of the current fiscal year, the District had total bonded debt outstanding of \$90,167,000. Of this amount, \$60,397,000 comprises General Obligation debt backed by the full faith and credit of the government, and \$29,770,000 is revenue bond debt.

North Davis Sewer District's Outstanding Debt
General Obligation and Revenue Bonds

	2005	2004
General obligation bonds	\$ 60,397,000	\$ 33,595,000
Revenue Bonds	29,770,000	15,790,000
Total	<u>\$ 90,167,000</u>	<u>\$ 49,385,000</u>

The District maintains a "Aaa" rating from Moody's for both revenue and general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 2.4 percent of its total assessed valuation. The current debt limitation for the District is \$130,589,364, which is significantly in excess of the District's outstanding general obligation debt.

In December 2000, the District issued \$10,000,000 of revenue bonds to finance upgrades of the collection system and treatment plant. The District held a bond election on August 7, 2002 asking for \$48,500,000 of bond authorization. The election passed with over 80% of those who voted voting in favor of the bonding. In February 2002, the District issued \$20,000,000 of general obligation bonds to fund expansion of the treatment plant and collection system. In January 2005, the District issued \$28,500,000 of general obligation bonds to fund expansion of the plant.

Additional information on the District's long-term debt can be found in the foot notes to the financial statements.

Reserve Funds

The District held \$49,527,638 in reserves at the end of the current fiscal year. The reserve fund is maintained to provide liquid assets for funding repairs and reconstruction of District-owned infrastructure in the event of catastrophic events, which potentially could affect the District's ability to provide service to its residents, also to fund expansion of capital facilities.

Reserve and Fee Structure

The District's impact fee is \$1,500. The monthly user charge (\$5.80) and tax rates (.0007), and during 2005 the District has started a revision of the capital facilities fund and related review of the rate being charged by the District including impact fees.

Planned Future Capital Improvements

The District has initiated an effort to expand its treatment plant facilities to provide capacity through the year 2025. There are also ongoing projects to upgrade the collection system to provide capacity needed for growth in the area. An agreement has been signed with Montgomery Watson Harza Engineers to design and build the expanded plant facilities. The expansion effort is projected for completion by 2007. The financial strategy selected by the District to fund the expansion of the treatment plant and collection system is a combination of general obligation bonds, impact fee revenues, and pay as you go from other revenues.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the North Davis Sewer District, ATTN: District Manager, P.O. Box 704, Layton, Utah 8401.

**NORTH DAVIS SEWER DISTRICT
STATEMENTS OF NET ASSETS-
PROPRIETARY FUND
DECEMBER 31, 2005 AND 2004**

ASSETS	<u>2005</u>	<u>2004</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 5,282,911	\$ 476,774
Accounts Receivable (net of allowance of \$6,500 in 2005 and 2004)	852,396	667,324
Taxes Receivable	839,601	367,126
Interest Receivable - Investments	361,693	381,990
Other Assets	78,294	80,844
Total Current Assets	<u>7,414,895</u>	<u>1,974,058</u>
NONCURRENT ASSETS		
Restricted Cash and Cash Equivalents	29,053,244	18,954,758
Restricted Investments	20,474,396	12,739,117
Total Restricted Assets	<u>49,527,638</u>	<u>31,693,875</u>
Delinquent Taxes Receivable	<u>61,779</u>	<u>112,073</u>
Capital Assets		
Land	6,948,355	6,855,224
Easements	1,378,690	1,341,070
Water Rights	194,900	194,900
Construction in Progress	51,621,880	31,303,465
Buildings	2,779,196	2,779,196
Plant and Sewer Systems	85,365,853	81,918,279
Automobiles and Equipment	3,097,891	3,063,887
Less Accumulated Depreciation	<u>(29,876,536)</u>	<u>(26,521,750)</u>
Total Capital Assets (net of accumulated depreciation)	<u>121,510,229</u>	<u>100,934,271</u>
Total Noncurrent Assets	<u>171,099,646</u>	<u>132,740,219</u>
Total Assets	<u>\$ 178,514,541</u>	<u>\$ 134,714,277</u>

LIABILITIES	2005	2004
CURRENT LIABILITIES		
Accounts Payable	\$ 1,090,607	\$ 2,358,559
Wages and Payroll Taxes Payable	19,603	18,384
Interest Payable - Bonds	1,413,111	831,886
Bonds Payable	2,964,297	2,536,010
Total Current Liabilities	<u>5,487,618</u>	<u>5,744,839</u>
CONSTRUCTION CONTRACTS PAYABLE	<u>377,218</u>	<u>846,783</u>
NONCURRENT LIABILITIES		
Bonds Payable	87,658,986	47,114,283
Deferred Revenue	61,779	112,073
Compensated Absences Payable	251,700	227,700
Total Noncurrent Liabilities	<u>87,972,465</u>	<u>47,454,056</u>
Total Liabilities	<u>93,837,301</u>	<u>54,045,678</u>
NET ASSETS		
Invested in capital assets, net of related debt	30,886,946	51,283,978
Restricted	7,187,655	6,507,762
Unrestricted	46,602,640	22,876,859
Total Net Assets	<u>\$ 84,677,241</u>	<u>\$ 80,668,599</u>

The Notes to Financial Statements are an integral part of these statements.

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NORTH DAVIS SEWER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS-
PROPRIETARY FUND
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES		
Charges for Service	\$ 5,138,406	\$ 4,779,676
OPERATING EXPENSES		
Costs of Services	3,989,663	3,300,993
Administration	441,905	392,288
Depreciation	3,471,398	3,370,754
Total Operating Expenses	<u>7,902,966</u>	<u>7,064,035</u>
Operating (Loss)	<u>(2,764,560)</u>	<u>(2,284,359)</u>
NON-OPERATING REVENUES (EXPENSES)		
Investment Income	1,019,189	1,575,718
Property Taxes	5,183,155	4,733,363
Rental Income	97,093	148,521
Miscellaneous	2,975	4,475
Interest and Fiscal Charges	(2,332,066)	(2,251,888)
Rental Expense	(30,647)	(29,612)
Gain on Disposal of Assets	9,733	-
Amortization of Bond Issue Cost	(134,373)	(179,284)
(Loss) On Bond Refunding	(100,000)	(1,227,824)
Total Non-Operating Income	<u>3,715,059</u>	<u>2,773,468</u>
Income before contributions	950,500	489,110
Capital Contributions - Impact Fees	3,059,919	2,748,589
Change in Net Assets	4,010,418	3,237,698
TOTAL NET ASSETS - BEGINNING	80,666,823	77,429,125
TOTAL NET ASSETS - ENDING	<u>\$ 84,677,241</u>	<u>\$ 80,666,823</u>

The Notes to Financial Statements are an integral part of these statements.

NORTH DAVIS SEWER DISTRICT
STATEMENTS OF CASH FLOWS-
PROPRIETARY FUND
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers and Users	\$ 5,138,406	\$ 4,779,676
Rents Received	97,093	148,521
Payments to Suppliers	(3,988,494)	(256,103)
Payments to Employees	(2,378,273)	(1,933,580)
Net Cash Provided by Operating Activities	<u>(1,131,269)</u>	<u>2,738,514</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(24,878,972)	(4,393,484)
Sales of Investments	16,970,846	26,966,235
Interest Income	\$ 1,019,189	\$ 1,577,493
Decrease in Interest Receivable	(20,297)	998,892
Net Cash Provided (Used) by Investing Activities	<u>107,603</u>	<u>1,685,096</u>
	<u>(6,909,235)</u>	<u>24,257,847</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(24,047,622)	(30,705,292)
Other Financing Source - Refunding Bonds	63,400,000	18,130,000
Other Financing Use - Payment to Refund Bond Escrow Agent	(20,920,000)	(50,000)
Principal Paid on Bonds Payable	(1,698,000)	(13,046,000)
Interest Expense	(2,332,066)	(2,251,888)
Amortization of Interest Subsidies	42,550	44,679
Amortization of Premium	(124,777)	(119,023)
Amortization of Issuance Costs	164,218	178,284
Increase/(Decrease) in Interest Payable	<u>581,225</u>	<u>131,373</u>
	(1,668,851)	(2,016,574)

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES (Continued)		
Bond Issuance Costs	-	(178,840)
Interest Subsidy	109,000	1,381,664
Property Tax Income	5,183,155	4,733,363
(Increase)/Decrease in Taxes Receivable	<u>(472,476)</u>	<u>298,541</u>
Contributed Capital (Impact Fees) from Customers	<u>3,059,919</u>	<u>2,748,589</u>
Net Cash Provided by Capital and Related Financing Activities	<u>22,945,126</u>	<u>(18,704,550)</u>
NET INCREASE/(DECREASE) IN CASH	14,904,623	8,291,811
CASH AT BEGINNING OF YEAR	19,431,532	11,139,721
CASH AT END OF YEAR	<u><u>\$ 34,336,155</u></u>	<u><u>\$ 19,431,532</u></u>

Reconciliation of operating income to net cash provided (used) by operating activities:

Operating (Loss)	\$ (2,764,560)	\$ (2,284,359)
Adjustment to Reconcile Operating Income to Net cash provided by Operating Activities:		
Depreciation	3,471,398	3,370,754
Net Loss on Disposal of Capital Assets	(9,733)	-
Non-Operating Revenues & Expenses (Net)	66,446	118,909
(Increase)/Decrease in Accounts Receivable	(185,072)	136,002
(Increase)/Decrease in Other Assets	2,550	22,667
Increase/(Decrease) in Accounts Payable	(1,267,952)	769,734
Increase/(Decrease) in Construction Contracts Payable	(469,565)	576,721
Increase/(Decrease) in Wages & Payroll Taxes Payable	1,219	(2,915)
Increase/(Decrease) in Compensated Absences Payable	24,000	31,000
Net Cash Provided by Operating Activities	<u><u>\$ (1,131,269)</u></u>	<u><u>\$ 2,738,514</u></u>

The Notes to Financial Statements are an integral part of these statements.

NORTH DAVIS SEWER DISTRICT
STATEMENTS OF FIDUCIARY NET ASSETS-
FIDUCIARY FUND
DECEMBER 31, 2004 AND 2003

ASSETS	<u>2005</u>	<u>2004</u>
Cash and Cash Equivalents		
Total Assets	\$ 376	\$ 1,506
 LIABILITIES		
Accounts Payable	<u>-</u>	<u>-</u>
 NET ASSETS		
Held in Trust for Employees Cafeteria Plan	<u>\$ 376</u>	<u>\$ 1,506</u>

The Notes to Financial Statements are an integral part of these statements.

NORTH DAVIS SEWER DISTRICT
 STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS-
 FIDUCIARY FUND
 FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2005</u>	<u>2004</u>
ADDITIONS		
Contributions		
Employer	\$ -	\$ -
Employees	129,979	104,393
Total Additions	<u>129,979</u>	<u>104,393</u>
DEDUCTIONS		
Benefits	131,109	103,956
Total Deductions	<u>131,109</u>	<u>103,956</u>
Change in Net Assets	(1,130)	437
Net Assets - Beginning	1,506	1,069
Net Assets - Ending	<u>\$ 376</u>	<u>\$ 1,506</u>

The Notes to Financial Statements are an integral part of these statements.

**NORTH DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The North Davis Sewer District, (District), was organized under Utah statutes in 1954 by action of the County Commissioners of Davis and Weber Counties. The action established a legal entity that had power to levy taxes, issue bonds, and construct and operate a sewage collection and treatment system for the benefit of the citizens in the District. The District is reported as a proprietary fund.

North Davis Sewer District is managed by a nine-member Board of Trustees. One trustee is appointed from each of the following participating cities: Clearfield, Clinton, Layton, Roy, Sunset, Syracuse, and West Point. An additional trustee is elected at large from each of the unincorporated areas of Davis and Weber Counties.

The total area of the District, approximately 82 square miles, covers the northern portion of Davis County and a portion of southern Weber County.

The District's main sources of funding are as follows:

1. Service revenue from participating municipalities
2. Property taxes from Davis and Weber Counties
3. Interest income
4. Pretreatment fees from industrial customers
5. Impact fees from new customers
6. Service revenue from Hill Air Force Base

No other entities are considered to be components of the District.

B. Measurement focus, basis of accounting, and financial statement presentation

The Proprietary Fund Types and Fiduciary Fund Types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period when they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligible requirements imposed by the provider have been met.

NORTH DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**B. Measurement focus, basis of accounting, and financial statement presentation
(Continued)**

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues in the current fiscal period. Only the portion of amounts receivable within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

In addition to the proprietary fund, the District reports a fiduciary fund type, which accounts for the funds deposited in the District's IRS section 125 cafeteria plan. These funds are used by employees of the District for qualified expenditures.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the *option* of following subsequent private-sector guidance for their business-type activities, subject to this same limitation. The District has elected to follow subsequent private-sector guidance, except for those that conflict with GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for services provided by the District. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Assets, liabilities, and net assets

A. Cash and Cash Equivalents

The District defines cash and cash equivalents as all deposits in its checking, savings, money market accounts, and all highly liquid debt instruments purchased with an original maturity of three months or less.

NORTH DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, liabilities, and net assets (Continued)

B. Investments

Investments in securities are classified as held to maturity and are stated at fair value or amortized cost, which approximates fair value.

C. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick-pay is accrued when incurred in the financial statements.

D. Capital Assets

Capital assets are recorded at cost, or in the case of donated assets, at fair value. Capital assets are defined by the District as assets with an initial, individual cost of more than \$2,500 (amount not rounded) and an estimated useful life in excess of two years.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation of all exhaustible fixed assets is charged as an expense on the District's operating statements. Accumulated depreciation is reported on the District's balance sheets. Depreciation has been provided over the estimated useful lives of assets using the straight line method. The estimated useful lives of all depreciable fixed assets are as follows:

	<u>Years</u>
Furniture & Fixtures	3 - 10
Vehicles	3 - 10
Equipment	5 - 20
Buildings	20-50
Sewer Collection Systems	40-50
Treatment Plant	10-50

E. Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

NORTH DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The District follows these procedures in establishing its budget:

1. On or before the first regularly scheduled meeting of the Board of Trustees in November of each year, the District Manager submits to the Board a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenses and the means of financing them.
2. The Board of Trustees reviews and tentatively adopts the budget submitted.
3. Public hearings are conducted to obtain taxpayer and rate payer comments. The Board of Trustees makes any necessary and proper adjustments to the budget.
4. Prior to the beginning of the fiscal year, the budget is enacted by adoption of a resolution by the Board of Trustees.
5. The budget may be amended any time during the year. A public hearing must be held before amending the budget. The amended budget is enacted by a resolution by the Board of Trustees. The 2005 and 2004 budgets were amended during the respective years.
6. Formal budgetary integration is employed as a management control device during the year.
7. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits and investments for local government are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the local government's exposure to various risks related to its cash management activities.

Custodial Credit Risk

Deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the local government's deposit may not be recovered. The local government's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the District to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of December 31, 2005 \$10,169,165 of the District's bank balances of \$10,369,165 were uninsured and uncollateralized. As of December 31, 2004 \$3,681,139 of The District's bank balance of \$3,793,716 were uninsured and uncollateralized.

NORTH DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Investments. Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the Districts will not be able to recover the value of its investments that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk of investments. The entire \$18,383,081 of the District's investments in bonds as of December 31, 2005 are uninsured, unregistered, and held by the counterparty's trust department but in the local government's name and are therefore exposed to custodial credit risk. The entire \$17,425,391 of the District's investments in bonds as of December 31, 2004 are uninsured, unregistered, and held by the counterparty's trust department but in the local government's name and are therefore exposed to custodial credit

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The District's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as "first-tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poors; bankers acceptances; obligations of the U.S. Treasury and U.S. government sponsored enterprises; bonds and notes of political subdivisions of the State of Utah; fixed rate corporate obligations and variable rate securities rated "A" or higher by two nationally recognized statistical rating

The local government is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administrative fees, of the PTIF are allocated based upon the participants' average

Following are the local government's investments at December 31, 2005

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Quality Ratings</u>
PTIF	\$ 7,543,317	less than 1 year	not rated
Federal Home Ln Bk	998,437	less than 1 year	AAA
Federal Home Ln Bk	4,996,875	less than 1 year	AAA
Federal Natl Mtg Assn	491,094	8/23/2010	AAA
Federal Natl Mtg Assn	1,051,180	2/1/2019	AAA
Federal Natl Mtg Assn	340,452	10/9/2019	AAA
Federal Home Ln Bk	479,375	6/26/2018	AAA
Federal Natl Mtg Assn	484,690	4/7/2016	AAA
Federal Natl Mtg Assn	2,934,375	2/25/2008	AAA
Federal Home Ln Bk	546,668	4/23/2008	AAA
Federal Home Ln Bk	273,294	2/15/2009	AAA
Federal Natl Mtg Assn	537,075	7/14/2010	AAA
Federal Home Ln Bk	979,994	11/15/2010	AAA

NORTH DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Following are the local government's investments at December 31, 2005 (Continued)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Quality Ratings</u>
Federal Home Ln Bk	276,649	8/15/2012	AAA
Federal Home Ln Bk	556,532	8/15/2013	AAA
Federal Natl Mtg Assn	1,960,000	2/3/2015	AAA
Federal Home Ln Bk	1,475,891	6/1/2018	AAA
Certificate of Deposit	1,464,820	less than 1 year	not rated
Certificate of Deposit	2,518,238	11/19/2007	not rated
Certificate of Deposit	1,635,908	less than 1 year	not rated
Certificate of Deposit	520,084	less than 1 year	not rated
Certificate of Deposit	2,819,972	less than 1 year	not rated
Certificate of Deposit	3,122,291	10/10/2007	not rated

Following are the local government's investments at December 31, 2004

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Quality Ratings</u>
PTIF	\$ 2,311,798	less than 1 year	not rated
Federal Home Ln Mtg Corp	496,220	12/24/2008	AAA
Federal Home Ln Bk	481,565	6/26/2018	AAA
Federal Natl Mtg Assn	311,416	10/9/2019	AAA
Federal Natl Mtg Assn	966,260	2/1/2019	AAA
Federal Natl Mtg Assn	482,500	4/7/2016	AAA
Federal Natl Mtg Assn	2,980,313	2/25/2008	AAA
Federal Home Ln Bk	559,939	4/23/2008	AAA
Federal Home Ln Bk	280,011	2/15/2009	AAA
Federal Natl Mtg Assn	550,025	7/14/2010	AAA
Federal Home Ln Bk	985,037	11/15/2010	AAA
Federal Home Ln Bk	5,000,055	12/6/2011	AAA
Federal Home Ln Bk	280,015	8/15/2012	AAA
Federal Home Ln Bk	560,020	8/15/2013	AAA
Federal Natl Mtg Assn	2,000,625	4/12/2018	AAA
Federal Home Ln Bk	1,491,391	6/18/2018	AAA
Certificate of Deposit	1,292,509	less than 1 year	not rated
Certificate of Deposit	2,472,185	11/19/2007	not rated
Certificate of Deposit	2,758,239	1/19/2006	not rated
Certificate of Deposit	3,075,742	10/10/2007	not rated
Certificate of Deposit	505,051	1/2/2006	not rated

NORTH DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The local government manages its disclosure to declines in fair value by investment mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity of commercial paper to 270 days or less and fixed rate negotiable deposits and corporate obligations to 365 days or less. Maturities of the District's investments are noted above.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy to limit this risk is to adhere to the rules of the Money Management Council. The Council's rule 17 limits investments in a single issuer of commercial paper and corporate obligations to between 5 and 10 percent depending upon the total dollar amount held in the District's portfolio at the time of purchase.

The District does not have any investments in commercial paper.

NOTE 4. IMPACT FEE REVENUE

The District has assessed an impact fee of \$1,500 since July 1, 2000; prior to that it was \$525 per residential equivalent for new connections to the sewer system. Since July 1, 1996, the District has accrued interest as restricted net assets on all impact fees that have not been spent on capital expenditures as required by the Impact Fees Act.

The State of Utah Impact Fee Act, effective July 1, 1998, requires that, at the end of each fiscal year, a report be prepared showing impact fees earned and expended. The information contained in that report for the years ended December 31 is as follows:

	2005	2004
Impact Fees	\$ 3,059,919	\$ 2,748,589
Interest Earned	180,096	62,240
Qualifying Debt Service Expenditures	(2,332,066)	(2,442,862)
Qualifying Capital Expenditures	-	-
Net Change in Account	907,949	367,967
Funds to be (Reimbursed)/Expended at Beginning of Year	4,754,553	4,386,586
Funds to be Expended at End of Year	<u>\$ 5,662,502</u>	<u>\$ 4,754,553</u>

**NORTH DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

NOTE 5. BOARD DESIGNATED ASSETS

The Board of Trustees has designated investments for payment of future capital expenditures. The Board also designated future net cash flows to fund future capital expenditures. Net cash flows are defined as net income increased or decreased for non-cash transactions, less bond principal payments. Bond proceeds and impact fees are restricted for capital expenditures. Capital expenditures are deductions from designated assets. Included in board designated assets are the impact fees received which are restricted by legislation for capital projects.

Restricted assets are as follows for the years ended December 31:

	2005	2004
Balance, January 1	\$ 31,693,876	\$ 46,788,540
<u>Additions</u>		
Net Proceeds from Bonds	-	-
Impact Fees Received	3,059,919	2,748,589
Net Cash Flows	38,821,466	12,862,039
Total Additions	41,881,385	15,610,628
<u>Deductions</u>		
Capital Expenditures	(24,047,622)	(30,705,292)
Total Deductions	(24,047,622)	(30,705,292)
Balance, December 31	\$ 49,529,638	\$ 31,693,876

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated:				
Land	\$ 6,855,224	\$ 93,131	\$ -	\$ 6,948,355
Easements	1,341,070	37,620	-	1,378,690
Water Rights	194,900	-	-	194,900
Construction in Progress	31,303,465	20,318,415	-	51,621,880
Total Capital Assets, not being depreciated	39,694,660	20,449,165	-	60,143,825
Capital Assets, being depreciated:				
Buildings	2,779,196	-	-	2,779,196
Plant and Sewer Systems	81,918,280	3,447,573	-	85,365,853
Automobiles and Equipment	3,063,886	150,883	(116,879)	3,097,891
Total Capital Assets, being depreciated	87,761,362	3,598,456	(116,879)	91,242,940

NORTH DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 6. CAPITAL ASSETS (Continued)

Capital asset activity for the year ended December 31, 2005 is as follows: (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Less Accumulated Depreciation for:				
Buildings	896,189	98,124	-	994,313
Plant and Sewer Systems	23,378,694	3,203,433	-	26,582,126
Automobiles and Equipment	2,246,866	169,843	(116,612)	2,300,096
Total Accumulated Depreciation	26,521,749	3,471,400	(116,612)	29,876,536
Net Depreciable Assets	61,239,614	127,057	(267)	61,366,404
Capital Assets, net	<u>\$ 100,934,273</u>	<u>\$ 20,576,222</u>	<u>\$ (267)</u>	<u>\$ 121,510,229</u>

Capital asset activity for the year ended December 31, 2004 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated:				
Land	\$ 5,933,006	\$ 922,218	\$ -	\$ 6,855,224
Easements	1,153,222	187,848	-	1,341,070
Water Rights	194,900	-	-	194,900
Construction in Progress	4,837,792	26,465,673	-	31,303,465
Total Capital Assets, not being depreciated	12,118,920	27,575,739	-	39,694,659
Capital Assets, being depreciated:				
Buildings	2,779,196	-	-	2,779,196
Plant and Sewer Systems	78,998,326	2,919,953	-	81,918,279
Automobiles and Equipment	2,854,287	209,600	-	3,063,887
Total Capital Assets, being depreciated	84,631,809	3,129,553	-	87,761,362
Less Accumulated Depreciation for:				
Buildings	798,066	98,123	-	896,189
Plant and Sewer Systems	20,287,756	3,090,939	-	23,378,695
Automobiles and Equipment	2,065,172	181,694	-	2,246,866
Total Accumulated Depreciation	23,150,994	3,370,756	-	26,521,750
Net Depreciable Assets	61,480,815	(241,203)	-	61,239,612
Capital Assets, net	<u>\$ 73,599,735</u>	<u>\$ 27,334,536</u>	<u>\$ -</u>	<u>\$ 100,934,271</u>

**NORTH DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

NOTE 7. LONG-TERM DEBT

Long-term liabilities for the year ended December 31, 2005 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 33,595,000	\$ 28,500,000	\$ (1,698,000)	\$ 60,397,000	\$ 2,069,000
Revenue Bonds	15,790,000	34,900,000	(20,920,000)	29,770,000	965,000
Unamortized Issuance Costs	(1,031,283)	-	164,218	(867,066)	(163,329)
Unamortized Interest Subsidy Discount	(272,959)	-	42,550	(230,409)	(42,550)
Unamortized Bond Premium	1,569,535	109,000	(124,777)	1,553,758	136,176
Total Bonds Payable, net	49,650,293	63,509,000	(22,536,010)	90,623,283	2,964,297
Other Liabilities					
Compensated Absences	227,700	24,000	-	251,700	-
Deferred Revenue	112,073		(50,294)	61,779	-
Total Long-term Debt	\$ 49,990,066	\$ 63,533,000	\$ (22,586,305)	\$ 90,936,761	\$ 2,964,297

Long-term liabilities for the year ended December 31, 2004 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 34,511,000	\$ 12,130,000	\$ (13,046,000)	\$ 33,595,000	\$ 1,698,000
Revenue Bonds	9,840,000	6,000,000	(50,000)	15,790,000	920,000
Unamortized Issuance Costs	(1,030,727)	(178,840)	178,284	(1,031,283)	(164,216)
Unamortized Interest Subsidy Discount	(317,638)	-	44,679	(272,959)	(42,550)
Unamortized Bond Premium	306,894	1,381,664	(119,023)	1,569,535	124,776
Total Bonds Payable, net	43,309,529	19,332,824	(12,992,060)	49,650,293	2,536,010
Other Liabilities					
Compensated Absences	196,700	31,000	-	227,700	-
Deferred Revenue	191,461	-	(79,388)	112,073	-
Total Long-term Debt	\$ 43,697,690	\$ 19,363,824	\$ (13,071,448)	\$ 49,990,066	\$ 2,536,010

1 Revenue bonds were issued and paid off in 2005.

NORTH DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 7. LONG-TERM DEBT (Continued)

General Obligation Bonds payable at December 31 are comprised of the following individual issues:

	<u>2005</u>	<u>2004</u>
\$4,000,000 Taxable G.O. Sewer Bonds, Series 1994A - Utah State Division of Water Quality Loan, maturing February 1, 2015; hardship grant assessment rate of 3.5%.	\$ 2,342,000	\$ 2,535,000
\$20,000,000 G.O. Sewer Bonds, Series 2002, maturing March 1, 2022; interest at 3.50% - 5.125%.	7,185,000	7,895,000
\$15,000,000 G.O. Sewer Bonds, Series 1995, maturing March 1, 2006; interest at 5.00% - 6.75%.	705,000	1,425,000
\$9,995,000 G.O. Sewer Refunding Bonds, Series 1998, refunding \$9,090,000 of the \$15,000,000 1995 G.O. Sewer Bonds, maturing December 15, 2015; at 3.45% - 4.25%.	9,535,000	9,610,000
\$12,130,000 G.O. Refunding Bonds, Series 2004, maturing March 1, 2021; interest at 5.00%	12,130,000	12,130,000
\$28,500,000 G.O. Sewer Bonds, Series 2005, maturing March 1, 2026; Interest at 3.00% - 4.625%	<u>28,500,000</u>	<u>-</u>
Total General Obligation Debt	60,397,000	33,595,000
Unamortized bond issue costs on the 1992, 1994A, 1995, 1998 and 2002 bonds.	(736,769)	(856,793)
Unamortized interest subsidy discount on the 1994-A bonds. Effective interest rate is 6.0%.	(230,409)	(272,959)
Unamortized bond premium on 2002 bonds.	<u>143,618</u>	<u>165,368</u>

**NORTH DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

NOTE 7. LONG-TERM DEBT (Continued)

	<u>2005</u>	<u>2004</u>
Total General Obligation Debt Net of Unamortized bond issue costs, Unamortized interest subsidy discount Unamortized Discount/Premium	\$ 59,573,438	\$ 32,630,616
Less Current Portion	<u>(1,999,297)</u>	<u>(1,616,010)</u>
Long-term General Obligation Bonds Payable	<u>\$ 57,574,141</u>	<u>\$ 31,014,606</u>

Sewer Revenue Bonds payable at December 31 are comprised of the following individual issues:

	<u>2005</u>	<u>2004</u>
\$9,995,000 Sewer Revenue Bonds, Series 2000, maturing September 1, 2020; interest at 4.60% - 5.45%.	\$ 2,985,000	\$ 3,405,000
\$6,435,000 Sewer Revenue Refunding Bonds, Series 2003A, maturing March 1, 2013; interest at 3.00% - 3.90%.	5,885,000	6,385,000
\$20,000,000 Taxable Sewer Revenue Bonds Series 2004A, maturing June 1, 2026; interest at	-	6,000,000
\$20,900,000 Taxable Sewer Revenue Bonds Series 2005A, Maturing June, 1, 2026; interest at	<u>20,900,000</u>	<u>-</u>
Total Sewer Revenue Bonds Debt	29,770,000	15,790,000
Unamortized bond issue costs on the 2000 Sewer Revenue Bonds	(130,297)	(174,489)
Unamortized bond premium on 2003A & 2004A bonds	<u>1,301,141</u>	<u>1,404,166</u>
Total Sewer Revenue Bond Debt Net of Unamortized bond issue costs	30,940,844	17,019,676
Less Current Portion	<u>(965,000)</u>	<u>(920,000)</u>
Long-term Sewer Revenue Bonds Payable	<u>\$ 29,975,844</u>	<u>\$ 16,099,676</u>

NORTH DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 7. LONG-TERM DEBT (Continued)

Annual Debt Service Requirements

The annual debt service requirements including principal and interest payments to maturity are as follows:

Year	General Obligation Bonds		Revenue Bonds		Total
	Principal	Interest	Principal	Interest	
2006	2,069,000	2,623,068	985,000	324,573	6,001,642
2007	2,306,000	2,535,576	1,338,000	771,418	6,950,994
2008	2,409,000	2,440,771	1,396,000	723,280	6,969,052
2009	2,501,000	1,343,739	1,449,000	667,351	5,961,091
2010	2,599,000	2,244,021	1,942,000	607,492	7,392,513
2011 - 2013	8,461,000	6,063,233	4,225,000	1,541,303	20,290,536
2014 - 2018	18,397,000	6,929,797	6,103,000	1,953,672	33,383,469
2019 - 2022	13,280,000	2,726,123	7,688,000	881,924	24,576,047
2023 - 2026	8,375,000	602,874	4,644,000	272,484	13,894,358
Total	<u>\$ 60,397,000</u>	<u>\$ 27,509,202</u>	<u>\$ 29,770,000</u>	<u>\$ 7,743,496</u>	<u>\$ 125,419,700</u>

The District's General Obligation bonds series 1998 require the use of a sinking fund to redeem the Bonds maturing on March 1, 2013 and March 1, 2015. The amounts and due dates of the sinking fund installments for the Bonds maturing on March 1, 2013, are set forth in the following table:

March 1 of the year	Amount
2011	\$ 1,050,000
2012	1,095,000
2013	1,140,000

The amounts and due dates of the sinking fund installments for the Bonds maturing on March 1, 2015, are set forth in the following table:

March 1 of the year	Amount
2014	\$ 1,195,000
2015	1,240,000

The District's Sewer Revenue bonds Series 2000 required the use of a sinking fund to redeem the Bonds maturing on March 1, 2020. The amounts and due dates of the sinking fund installments for the Bonds maturing on March 1, 2020, are set forth in the following table:

**NORTH DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

NOTE 7. LONG-TERM DEBT (Continued)

<u>March 1 of the year</u>	<u>Amount</u>
2019	\$ 850,000
2020	900,000

Pledge of the 2000 Bond Resolutions - The Bond Resolutions provide that the Bonds shall be special obligations of the District payable solely from and secured by: i) the proceeds of sale of the Bonds; ii) all revenues, connection fees, income, rents, and receipts attributed to the water supply and distribution system (the System), except taxes levied to provide for operation and maintenance costs, and income from investments of any monies held pursuant to the Resolutions, except monies held in the Construction Fund; and iii) all funds, other than the Operation and Maintenance Fund, established by the Resolutions. The Resolutions do not require the District to pledge any property constituting part of the System.

Payments of the principal and interest on the Series 2000 Revenue Bonds are insured by municipal bond insurance policies issued by AMBAC Indemnity Corporation.

Funds Required by the Bond Resolutions - The Resolutions require that certain "funds" be established to account for the District's receipts and disbursements. Such "funds" are accounts within the District's records and are not separate funds or groups of self-balancing accounts. The amounts held in these funds are to be used for the purposes stipulated in the Resolutions as described below. Funds held by the trustee have been restricted and corresponding amounts of net assets have been restricted also.

Revenue Fund (held by the District) - This fund initially receives revenues and disburses them to the Operations and Maintenance Fund and then to the debt service account. Any remaining revenues may be applied at the determination of the District to: (1) the purchase or redemption of any Bonds and payment of expenses in connection with the purchase or redemption of any Bonds, (2) payments of principal or redemption price of an interest on any Bonds, including general obligation or junior lien revenue bonds of the District, issued to acquire improvements or extensions to the System; (3) payments into the construction fund; (4) payment of the cost of capital improvements to the System and (5) any other lawful purpose of the issuer. At December 31, 2005 and 2004, the balance of cash and investments in the fund was \$2,784,185 and \$470,672, respectively.

Operation and Maintenance Fund (held by the District) - This fund pays all costs of operation and maintenance as appropriated in the annual District budget. The District is required to have on deposit sufficient funds to efficiently operate and maintain the District's system for six calendar months. At December 31, 2005 and 2004, the balance of cash and investments in the fund was \$1,761,203 and \$1,721,205, respectively.

NORTH DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 7. LONG-TERM DEBT (Continued)

Bond Fund (held by the trustee) - This fund pays all interest and principal related to the Bonds. On the fifth business day preceding each maturity date of the Bonds or interest payment date, the District is required to deposit in this fund an amount equal to the accrued aggregate debt service of the next principal and interest installment due. At December 31, 2005 and 2004, the fair value of cash and investments in these funds consisted of \$0 and \$0, respectively, in the 2000 bond fund.

Defeasance of Debt

During 1998, the District placed \$9,090,000 of the proceeds of the \$9,995,000 G.O. Sewer Refunding Bonds, Series 1998 with an escrow agent to advance refund \$9,090,000 of the \$15,000,000 G.O. Sewer Bonds, Series 1995 Bonds. The issuance of the Series 1998 bonds permitted the District to take advantage of declines in interest rates by exchanging the higher-cost 1995 bonds for the lower-cost Series 1998 bonds.

Because the \$9,090,000 was placed in trust and restricted solely for payment of the principal and interest of the 1995 bonds, the liability was considered extinguished, or defeased, for accounting purposes and was not required to be reported on the District's balance sheet.

The amount of defeased debt still outstanding as of December 31, 2005 and 2004 is \$0 and \$9,090,000. The cash flow required to service the new series 1998 bonds is \$493,237 less than the defeased series 1995 bonds. The economic gain, which is the difference between the present value of the series 1995 bonds service requirements and the present value of the series 1998 bonds service requirements discounted at the effective interest rate on the new debt (4.272%), is \$397,703.

During 2003, the District placed \$6,435,000 of the proceeds of the \$6,435,000 Sewer Revenue Refunding Bonds, Series 2003A, and \$925,251 of debt service reserve funds with an escrow agent to advance refund \$6,590,000 of the \$9,995,000 Sewer Revenue Bonds, Series 2000. The issuance of the Series 2003A bonds permitted the District to take advantage of declines in interest rates by exchanging the higher-cost 2000 bonds for the lower-cost Series 2003A bonds.

Because the \$7,360,251 was placed in trust and restricted solely for payment of the principal and interest of the 2000 bonds, the liability was considered extinguished, or defeased, for accounting purposes and was not required to be reported on the District's balance sheet.

The amount of defeased debt still outstanding as of December 31, 2005 and 2004 is \$6,590,000. The cash flow required to service the new series 2003A bonds is \$3,130,722 less than the defeased series 2000 bonds. The economic gain, which is the difference between the present value of the series 2000 bonds service requirements and the present value of the series 2003A bonds service requirements discounted at the effective interest rate on the new debt (5.099%), is \$328,143.

NORTH DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 7. LONG-TERM DEBT (Continued)

During 2004, the District placed \$12,130,000 of the proceeds of the \$12,130,000 General Obligation Refunding Bonds, Series 2004, reserve funds with an escrow agent to advance refund \$12,130,000 of the \$20,000,000 General Obligation Sewer Bonds, Series 2002. The issuance of the Series 2004 bonds permitted the District to take advantage of declines in interest rates by exchanging the higher-cost 2002 bonds for the lower-cost Series 2004 bonds.

The cash flow required to service the new series 2004 bonds is \$3,121,506 less than the defeased series 2002 bonds. The economic gain, which is the difference between the present value of the series 2002 bonds service requirements and the present value of the series 2004 bonds service requirements discounted at the effective interest rate on the new debt (5.1438%), is \$439,032.

Interest Expense

Interest expense for the years ended December 31, 2005 and 2004 is \$2,251,888 and \$2,251,888, respectively. The amount of interest capitalized during 2005 and 2004 was \$0 and \$0, respectively.

Fair Value of Bonds

Based on the borrowing rates currently available to the District for bonds with similar terms and average maturities, the fair value of general obligation bonds and revenue bonds is \$57,741,000 and \$23,015,000, respectively, for a total of \$80,756,000.

As of June 13, 2003 the Utah Water Quality Board authorized a loan of \$20,000,000 to North Davis Sewer District for the construction of various wastewater treatment facility improvements that are necessary to keep pace with the growth of member entities and insure continued compliance with UPDES permit limitations and biosloids permit requirements. The loan from the Utah Water Quality Board will be secured by a revenue bond issued by the District. The Utah Water Quality Board has determined the retirement period for the bond to be no more than 20 years, with an interest rate of 0% and a hardship grant assessment of 2.74%. During 2005 the District repaid the Utah Water Quality Board and was authorized a new loan for \$20,900,000 in order to do a Selieum Study of the District.

NOTE 8. PROPERTY TAXES

Property taxes are recognized when they are measurable and available. Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on June 15 and are due on November 30 of each year. As of December 31, property taxes receivable by the District include uncollected taxes assessed as of January 1 or earlier. It is expected that all assessed taxes (including delinquencies plus accrued interest and penalties) will be collected within a five-year period, after which time the county treasurer may force sale of property to collect the delinquent portion. District property tax revenues are recognized when levied in an amount estimated to be collectible during the year and within 60 days after the end of the year. Delinquent property taxes are recognized as a non-current asset and deferred until they are received by the District.

NORTH DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

The District is permitted by the State to levy taxes on all taxable property in the district for the carrying out of the purposes for which the District was created. The taxes levied for the District cannot in any year exceed .0008000 of the valuation of the taxable property in the district. However, the District can levy an unlimited property tax to pay for principal and interest on general obligation bonds.

The tax rate was .000763 for 2005 and 2004, respectively, in both Davis and Weber Counties. Of the 2005 rate, .000328 was assessed for payment of debt service. Of the 2004 rate, .000323 was assessed for payment of debt service.

Beginning January 1, 1992, there was levied in lieu of the ad valorem tax, an annual uniform fee based on the value of motor vehicles. This uniform fee was 1.5% of the market statewide value of the property, as established by the State Tax Commission. On January 1, 1999, legislation became effective which made motor vehicle weighing 12,000 pounds or less subject to an "age-based" fee that is due each time the vehicle is registered. The age-based fee is for passenger type vehicles and ranges from \$10 to \$150 based on the age of the vehicle. The revenues collected in each county from the uniform fee is distributed by the county to each taxing entity in which the property is located in the same proportion in which revenue collected from ad valorem real property tax is distributed. The District recognizes the age-based fee as revenue when the County collects it.

NOTE 9. PENSION PLAN

Plan Description The District contributes to the Local Governmental Contributory Retirement System and the Local Governmental Non-contributory Retirement System, cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (URS). URS provides refunds, retirement benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The URS issues a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement system and Local Governmental Noncontributory Retirement system. A copy of the report may be obtained by writing to the URS, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

Funding Policy. Plan members are required to contribute a percent of their covered salary to the respective systems to which they belong (the District pays the required contributions for the employees); which is 6.00% to the Contributory. The District is required to contribute a percent of covered salary to the respective systems; 7.08% for 2005, 7.08% for 2004, and 5.15% for 2003 to the Contributory, and 11.090% for 2005, 9.62% for 2004, and 9.16% for 2003 to the Noncontributory. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The District contributions to the various systems for the years ending December 31, 2005, 2004, and 2003 respectively were; to the Contributory System, \$16,717, \$16,075, and \$13,949; to the Noncontributory System, \$171,189, \$154,419, and \$132,144. The contributions were equal to the required contributions for each year.

NORTH DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 9. PENSION PLAN (Continued)

Other. The District also provides a flexible compensation plan for eligible employees under the terms of a plan adopted August 15, 1986. This plan provides participants with the choice, within an amount of "flex dollars" determined and provided by both the employer and employee, of different combinations of nontaxable and taxable employee benefits or cash. The possible benefits provided under the plan include:

- a. 401(k) deferred compensation
- b. Medical coverage
- c. Dental coverage
- d. Vision coverage
- e. Employee life insurance
- f. 401(a) alternate retirement account
- g. 457 deferred compensation plan

Employees of the District who have elected to participate in the plan have funded the benefits by a reduction in compensation.

The District contributes a percentage of all employees' eligible salary to a 401(k) deferred compensation plan. The District contributed 3.49% for employees participating in the Contributory State Retirement program, and 5.48% for employees participating in the Non-contributory State Retirement Program. In 2005 and 2004 these contributions amounted to \$171,189 and \$154,419, respectively.

NOTE 10. NET ASSETS

Net assets at December 31, 2005 and 2004 consisted of the following:

	2005	2004
Invested in Capital Assets, net of related debt:		
Property, plant and equipment, net	\$ 121,510,229	\$ 100,934,271
Less: Outstanding debt issued to construct capital assets	(90,623,283)	(49,650,293)
Add: Unspent portion of bond proceeds	-	-
Total invested in capital assets, net of related debt	<u>30,886,946</u>	<u>51,283,978</u>
Restricted net assets:		
Restricted by enabling legislation for capital projects	5,662,502	4,754,553
Restricted for the operation and maintenance of the District	1,525,153	1,753,209
Restricted for debt service	-	0
Total restricted net assets	<u>7,187,655</u>	<u>6,507,762</u>
Unrestricted net assets	<u>46,602,640</u>	<u>22,876,859</u>
Total Net Assets	<u>\$ 84,677,241</u>	<u>\$ 80,668,599</u>

**NORTH DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

NOTE 11. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters for which the District carries commercial insurance. The District also carries commercial workers' compensation insurance. There were no significant reductions in coverage from the prior year, and settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE 12. COMMITMENTS

The District is committed to a long-range effort to increase the present collection system and treatment plant capacity. The District's current Master Facility Plan is budgeted at approximately \$96 million, to be expended over the next 5 years.

The following construction projects are currently under construction or are budgeted to begin during 2006:

	<u>Commitments</u>
Plant Additions and Improvements	
Construction Chlorine Contact Basins	\$ 2,738,505
Solids Contact Process	10,684,100
Plant Power System Improvements	440,000
Influent Pump Station	4,135,229
Construction Scheduleing & Field Investigation	57,000
Construction Site Services	1,000,000
Women Restroom at Building #13	250,000
Laboratory Addition	1,000,000
Biotowers, Backup Power, Ele. Upgrades	275,000
Solids Processing Facility	110,000
Primary Clarifier/Pumps/Piping	60,000
Selenium Study	300,000
Site Restoration	1,000,000
Site Demolition	1,500,000
	<u>23,549,834</u>
Collection System Additions and Improvements	
South Relief Sewer Phase 4	4,403,584
West Outfall Replacement Phase 3 & 4	7,338,347
South Outfall Replacement	320,000
Easements	350,000
Stream Crossing Line Protection	20,000
Kays Creek Manhole Replacement	35,000
Repair/lining of cracked piping	50,000
	<u>12,516,931</u>
Total	<u><u>\$ 36,066,765</u></u>

**NORTH DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

NOTE 13. SUBSEQUENT EVENT

In the June 8, 2006 board meeting the board approved consideration and adoption of up to \$21,650,000 aggregate principal amount of taxable sewer improvement and refunding revenue bonds, series 2006A.

NORTH DAVIS SEWER DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL-
PROPRIETARY FUND
FOR THE YEAR ENDING DECEMBER 31, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Charges for Services	\$ 5,244,920	\$ 5,244,920	\$ 5,138,406	\$ (106,514)
Interest Income	1,000,000	1,000,000	1,019,189	19,189
Property Taxes	5,362,608	5,362,608	5,183,155	(179,453)
Impact Fees	2,870,000	2,870,000	3,059,919	189,919
Rental Income	105,000	105,000	97,093	(7,907)
Other Revenue	-	-	2,975	2,975
Total Revenue	<u>14,582,528</u>	<u>14,582,528</u>	<u>14,500,738</u>	<u>(81,790)</u>
Expenditures:				
Personnel Services	2,443,358	2,442,358	2,378,273	64,085
Training and Conferences	102,250	94,734	76,904	17,830
Contractual Services	157,000	121,000	93,866	27,134
Supplies and Materials	214,000	214,000	218,328	(4,328)
Repairs and Maintenance	569,120	634,120	626,762	7,358
Professional Services	615,100	581,100	526,160	54,940
Plant Insurance	100,000	100,000	97,312	2,688
Utilities Expense	277,000	350,000	331,542	18,458
Miscellaneous	84,650	87,650	82,422	5,228
Depreciation	3,437,821	3,651,474	3,471,398	180,076
Debt Service and Amortization	2,057,979	2,357,979	2,466,439	(108,460)
Rental Expense	30,000	30,000	30,647	(647)
Gain/Loss on Bond Refunding	-	-	100,000	(100,000)
Loss on Disposal of Assets	-	-	(9,733)	9,733
Total Expenses:	<u>10,088,278</u>	<u>10,664,415</u>	<u>10,490,319</u>	<u>174,096</u>
Net Income	<u>\$ 4,494,250</u>	<u>\$ 3,918,113</u>	<u>\$ 4,010,419</u>	<u>\$ 92,306</u>

The Notes to Financial Statements are an integral part of these statements.

**NORTH DAVIS SEWER DISTRICT
SCHEDULE OF REQUIREMENTS OF THE SEWER REVENUE BONDS, SERIES 2000,
AND SEWER REVENUE REFUNDING BONDS, SERIES 2003A
FOR THE YEAR ENDED DECEMBER 31, 2004**

1. A Schedule of Insurance Policies in Force at December 31, 2005 is at page 39.
2. "Net Revenues" for fiscal year 2005 exceeds 1.0 times the "Aggregate Debt Service" for 2005 and "Net Revenues" and amounts maintained in the Revenue Fund for debt Service for 2005 exceed 1.15 times the "Aggregate Debt Service" for 2004, as those terms are defined in the Master Resolution Number 2000-9 Providing For The Issuance of Sewer Revenue Bonds. The District met the minimum requirements as described on page 40.
3. An analysis of all funds established by the Resolution is at page 41.

The Notes to Financial Statements are an integral part of theses statements.

**NORTH DAVIS SEWER DISTRICT
SCHEDULE OF INSURANCE POLICIES IN FORCE
DECEMBER 31, 2005**

COVERAGE:

LIMITS OF COVERAGE:

**Commercial General Liability:
Olympus Insurance Agency
(expires August 15, 2006)**

**\$2,000,000 aggregate limit
with \$5,000 deductible**

**Combined Property Coverage:
ARCH Insurance Co
(expires August 15, 2006)**

**\$25,421,152 with \$1,000
deductible**

**Business Auto Coverage:
Olympus Insurance Agency
(expires August 15, 2006)**

**\$1,000,000 limit per
accident with \$500
deductible**

**Public Officials and Employees Liability:
Old Republic Surety Company
(Continuous until cancelled)**

**\$1,000,000 limit with \$2,500
deductible**

**Workers Compensation Insurance:
St. Paul Insurance Company
(expires August 15, 2006)**

**\$100,000 each accident
\$500,000 policy limit
\$100,000 each employee**

**Equipment Coverage:
St. Paul Insurance Company
(expires August 15, 2006)**

**\$299,067 aggregate limit
\$500 deductible**

**Umbrella Coverage:
St. Paul Insurance Company
(expires August 15, 2006)**

**\$4,000,000 each occurrence
\$10,000 retention amount limit**

The Notes to Financial Statements are an integral part of these statements.

NORTH DAVIS SEWER DISTRICT
SCHEDULE OF CHANGES IN FUND ESTABLISHED BY THE
SEWER REVENUE BONDS, SERIES 2000, AND SEWER REVENUE
REFUNDING BONDS, SERIES 2003A (CASH BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Operations & Maintenance Fund</u>	<u>Revenue Fund</u>	<u>2000</u>	<u>Bond Fund 2003A</u>	<u>2005A</u>
Balance, December 31, 2004	\$ 1,753,209	\$ 470,672	\$ -	-	-
Bond Proceeds	-	-	-	-	20,900,000
Revenue	5,183,155	6,132,747	12,346	-	-
Expenditures on Projects	-	-	-	-	-
Expenditures on Interest	-	-	(570,988)	-	-
Expenditures on Principal	-	-	(420,000)	(500,000)	-
Operations & Maintenance Expenditures	(5,411,211)	-	-	-	-
Transfers	-	(3,902,331)	978,642	500,000	(20,900,000)
Balance, December 31, 2005	<u>\$ 1,525,153</u>	<u>\$ 2,701,088</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Cash	\$ 113,398	\$ 2,784,185	\$ -	\$ -	\$ -
Investments	1,647,805	-	-	-	-
Restricted Cash	-	-	-	-	-
Total Cash & Investments	<u>\$ 1,761,204</u>	<u>\$ 2,784,185</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The Notes to Financial Statements are an integral part of these statements.

**NORTH DAVIS SEWER DISTRICT
SCHEDULE OF NET REVENUES AND AGGREGATE DEBT SERVICE
FOR THE YEAR ENDED DECEMBER 31, 2005**

NET REVENUES AS DEFINED BY BOND COVENANTS:

Total Operating Revenues	\$ 5,138,406
Non-Operating Revenues	<u>7,147,772</u>
	12,286,178
Less - operating expenses (excluding depreciation)	<u>4,431,568</u>

NET REVENUES	<u>\$ 7,854,609</u>
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AGGREGATE DEBT SERVICE

Interest	\$ 324,573
Principal	<u>985,000</u>

AGGREGATE DEBT SERVICE	<u>\$ 1,309,573</u>
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NET REVENUES DIVIDED BY AGGREGATE DEBT SERVICE	<u>6.00</u>
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MINIMUM REQUIREMENT	<u>1.0</u>
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Net Revenue	\$ 7,854,609
Amount maintained in Revenue Fund for debt service	<u>2,784,185</u>

NET REVENUES AND AMOUNTS MAINTAINED FOR DEBT SERVICE	<u>\$ 10,638,794</u>
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AGGREGATE DEBT SERVICE	<u>\$ 1,309,573</u>
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NET REVENUES AND AMOUNTS MAINTAINED FOR DEBT SERVICE DIVIDED BY AGGREGATE DEBT SERVICE	<u>8.12</u>
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MINIMUM REQUIREMENT	<u>1.15</u>
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These debt-service requirements are defined in the bond covenants.

The Notes to the Financial Statement are an integral part of these statements.

NORTH DAVIS SEWER DISTRICT
INDEPENDENT AUDITORS' REPORTS ON
LEGAL COMPLIANCE AND INTERNAL CONTROL
DECEMBER 31, 2005



Steven F. Crane, CPA
Kent R. Christensen, CPA
Jeffrey L. Ambrose, CPA
Chuck Palmer, CPA

**INDEPENDENT AUDITORS' REPORT
ON STATE OF UTAH LEGAL COMPLIANCE**

To the Board of Trustees
North Davis Sewer District
Syracuse, Utah

We have audited the financial statements of North Davis Sewer District for the year ended December 31, 2004, and have issued our report thereon dated June 6, 2006. Our audit included test work on the District's compliance with those compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance

Truth in Taxation and Property Tax Limitations
Special Districts
Other General Compliance Issues
Impact Fees and Other Development Fees

The District did not receive any major or non-major State grants during the year ended December 31, 2004.

The management of North Davis Sewer District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed an instance of noncompliance with the requirements referred to above, which is described in the accompanying Schedule of Findings and Questioned Costs. We considered this instance of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, except for the instance of noncompliance mentioned above, North Davis Sewer District complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2005.

Crane Christensen & Ambrose

June 6, 2006

NORTH DAVIS SEWER DISTRICT

Schedule of Findings and Questioned Costs

Year Ended December 31, 2005

PROGRAM: CASH MANAGEMENT

FINDING: The District did not make some cash deposits within the required three business day period.

QUESTIONED COSTS: None

RECOMMENDATION: The District should make all cash deposits within three business days.

DISTRICT'S REPLY: The District will make all cash deposits within three business days.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees
North Davis Sewer District
Syracuse, Utah

We have audited the financial statements of North Davis Sewer District as of and for the year ended December 31, 2005, and have issued our report thereon dated June 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether North Davis Sewer District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered North Davis Sewer District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the use and information of management and the Board of Trustees of North Davis Sewer District and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Crane Christensen & Ambrose

June 6, 2006